

## Message Text

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PAGE 01 PARIS 07970 01 OF 02 282007Z

73

ACTION COME-00

INFO OCT-01 EUR-12 IO-10 ISO-00 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 TAR-01 STR-04

CEA-01 FEA-01 INT-05 /085 W  
----- 028559

R 281755Z MAR 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7974

INFO AMEMBASSY LONDON

AMEMBASSY ROME

USDEL MTN GENEVA

USMISSION EC BRUSSELS

UNCLAS SECTION 01 OF 02 PARIS 07970

E.O. 11652: N/A

TAGS: EFIN, ETRD, FR

SUBJECT: EXPORT PRODUCTION COST RISK INSURANCE IN FRANCE

REF: STATE 58392

THE FOLLOWING IS THE INFORMATION WE WERE ABLE TO  
GATHER IN RESPONSE TO REFTEL.

1. BACKGROUND TO PROGRAM. A PROGRAM OF EXPORT PRODUCTION COST INSURANCE WAS INSTITUTED IN FRANCE AS EARLY AS L948. UNTIL 1960, IT WAS ADMINISTERED DIRECTLY BY THE GOVERNMENT (WHICH WAS STILL PAYING CLAIMS AS LATE AS L973). SINCE L960, IT HAS BEEN ADMINISTERED BY COFACE, FRENCH OFFICIAL AGENCY FOR INSURANCE OF CERTAIN FOREIGN TRADE RISKS, MAINLY EXPORT CREDIT RISKS.

2. MODALITIES

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PAGE 02 PARIS 07970 01 OF 02 282007Z

A. PREMIUM: 1.0 PERCENT PER ANNUM CALCULATED

ON CONTRACT VALUE OF INSURED ELEMENTS.

B. MINIMUM CONTRACT: 2 MILLION FRANCS.

C. MINIMUM LEAD TIME (TIME FOR EXECUTION OF CONTRACT): 12 MONTHS.

D. COMMODITY COVERAGE: ONLY CLEARLY FRENCH-ORIGIN INPUTS OF GOODS AND SERVICES ARE COVERED.

E. GEOGRAPHICAL COVERAGE: EXPORTS TO OTHER E.C. COUNTRIES ARE EXCLUDED, AS ARE EXPORTS OF MILITARY EQUIPMENT TO DEVELOPED COUNTRIES.

F. AMOUNT OF COMPENSATION: CALCULATED BY APPLYING TO INITIAL CONTRACT VALUE A PERCENTAGE FOR COST INCREASES BASED ON INTERNAL FRENCH PRICE INDICES, LESS DEDUCTIBLE FOR "NORMAL INTERNATIONAL PRICE INCREASES". FOR LARGE CONTRACTS, COST INCREASES ARE DETERMINED "BY EXPERTS" ON CASE BY CASE BASIS.

G. DEDUCTIBLE, VALID FOR THE DURATION OF CONTRACT, IS NOW ESTABLISHED AT 6.5 PERCENT PER YEAR, 8 PERCENT FOR MILITARY EQUIPMENT OR CONTRACTS WITH A PARTICULARLY LONG LEAD TIME. STANDARD DEDUCTIBLE IS BASED ESSENTIALLY ON AN ESTIMATE FOR RATE OF INFLATION IN FRG OVER NEXT FOUR YEARS. DURING 1974, VARIOUS RATES WERE EMPLOYED ON AN AD HOC BASIS, RANGING AS HIGH AS 12 PERCENT.

H. NO FIXED CEILING ON COST INCREASES WHICH ARE COMPENSATED.

3. BUDGETARY COSTS OF PROGRAM, AS REPORTED TO PARLIAMENT

1973- 585 MILLION FRANCS

1974- ABOUT 900 MILLION FRANCS

1975- ABOUT 900 MILLION FRANCS (THIS IS INITIAL

ESTIMATE, WHICH WILL UNDOUBTEDLY BE

EXCEEDED, PERHAPS WELL OVER 1 BILLION FRANCS)

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PAGE 03 PARIS 07970 01 OF 02 282007Z

1976-78- FINANCE MINISTER FOURCADE HAS ESTIMATED

COSTS AS HIGH AS 1.5 BILLION FRANCS PER

YEAR. AFTER, 1978-80 COSTS SHOULD DECLINE.

4. COVERAGE. NEW CONTRACTS COVERED DURING YEAR, AS REPORTED TO PARLIAMENT

1972- 5.9 BILLION FRANCS

1973- 5 BILLION FRANCS (414 CONTRACTS)

5. RESULTS. THERE ARE NO FIGURES AVAILABLE ON THE  
VALUE OF EXPORTS CORRESPONDING TO GUARANTEE PAYMENTS  
MADE EACH YEAR. ACCORDING TO FINANCE MINISTRY,  
ACCOUNTING AND REIMBURSEMENT PROCESSES CAN BE EXTREMELY  
LONG, SO THAT IN ANY ONE YEAR PAYMENTS ARE MADE ON

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PAGE 01 PARIS 07970 02 OF 02 282007Z

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UNCLAS SECTION 02 OF 02 PARIS 07970

CONTRACTS CONCLUDED OVER AN EIGHT-YEAR SPAN. REIMBURSE-  
MENTS CAN FOLLOW ACTUAL EXPORTS BY SEVERAL YEARS. AT  
PRESENT TIME, PAYMENTS ARE BEING MADE ON CONTRACTS FROM  
PERIOD 1965-73 WITH MAJORITY DATING FROM 1969-71.  
INDEED, ACCORDING TO GOF, SWELLING OF EXPENDITURES  
IN RECENT YEARS (FROM ABOUT 50 MILLION FRANCS IN 1969)  
IS PRINCIPALLY DUE TO DRAMATIC COST INCREASES  
ARISING FROM 1968 WAGE SETTLEMENTS FOLLOWING MAY-JUNE  
"EVENTS", A FACTOR PECULIAR TO FRANCE (AND ALSO

COMPENSATED FOR THROUGH 1969 FRANC DEVALUATION). A SMALLER SPURT IN PAYMENTS WILL BE OCCASIONED BY 1974 INFLATION, IT IS EXPECTED. HENCE, FINANCE MINISTRY POINTED OUT, PAYMENTS AT SUBSTANTIAL RATES WOULD CONTINUE FOR REMAINDER THIS DECADE EVEN IF PROGRAM WERE NOW TO BE DISCONTINUED. HOPE IS, IN FACT, THAT 1978-80 WILL MARK SHARP DOWNTURN IN DISBURSEMENTS. GOF HAS BEEN DEFENSIVE ABOUT RISING COSTS OF PROGRAM AND PARLIAMENTARY CRITICISM THAT BENEFITS ALSO GO TO UNCLASSIFIED

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PAGE 02 PARIS 07970 02 OF 02 282007Z

MNC'S EXPORTS TO AFFILIATED COMPANIES TAKING PLACE AS PART OF "DIVISION OF LABOR". FIRST CRITICISM, AT LEAST, HAS BEEN MET BY SUBSTANTIAL INCREASE IN RATES (OVER 0.5 PERCENT PREMIUM AND 4.5 DEDUCTIBLE IN BEGINNING OF 1974).

6. RATIONALE. ACCORDING TO FINANCE MINISTRY, RATIONALE OF PROGRAM IS TO INSURE THAT FRENCH EXPORTER DOES NOT SUFFER FROM A PROBLEM BEYOND HIS CONTROL - DOMESTIC INFLATION. PROGRAM IS DESIGNED ONLY TO COMPENSATE FOR THIS EFFECT IN ABSENCE OF NEUTRALIZATION WHICH EXCHANGE RATE ADJUSTMENTS MIGHT PROVIDE IN STANDARD ECONOMIC THEORY. IT IS NOT TO ENCOURAGE EXPORTS OR ENRICH EXPORTERS. FOR THIS REASON, GOF HAS BEEN PARTICULARLY CONCERNED THAT DEDUCTIBLE FOR INTERNATIONAL PRICE INCREASES BE SUFFICIENTLY HIGH. A SECOND ARGUMENT ADVANCED FOR PROGRAM WAS THAT FRANCE "SHOULD NOT MAKE LDC IMPORTERS PAY FOR FRENCH INFLATION". IT WAS ALSO SUGGESTED THAT MORE STABLE EXPORT PRICES TO OIL-PRODUCERS WOULD ALSO DEPRIVE OIL PRODUCERS OF AN ARGUMENT TO RAISE THEIR PRICES.

7. COMMENT. WHILE THERE IS NO DOUBT THAT REMOVING WORRY OF EXCESSIVE PRICE INCREASES OF DOMESTIC INPUTS ENABLES BENEFITING CAPITAL-GOODS EXPORTERS TO KEEP THEIR OFFERS LOWER THAN THEY MIGHT OTHERWISE BE, ACTUAL TRADE IMPACT IS IMPOSSIBLE TO MEASURE. EMBASSY COMMERCIAL OFFICE HAS NO RECORD OF COMMENTS OR COMPLAINTS ON SUBJECT FROM AMERICAN EXPORTERS OR COMPANIES HERE. HOWEVER, FIGURES WE DO HAVE FOR RECENT YEARS ON VALUE OF CONTRACTS UNDERWRITTEN, NUMBER OF CONTRACTS INVOLVED, AND VALUE OF SETTLEMENTS SUGGEST THAT THIS PROGRAM BENEFITS PRIMARILY SMALL NUMBER OF EXPORT DEALS WITH HIGH AVERAGE UNIT VALUE AND THAT FOR THESE PROJECTS IT RESULTS IN SUBSTANTIAL REDUCTION OF PRICE TO FOREIGN BUYER, COMPARED TO FINAL COSTS OF PRODUCTION (PERHAPS IN EXCESS OF 10 PERCENT). EVEN THOUGH WE SEE NO WAY WITH DATA AT OUR DISPOSAL TO MEASURE TRADE IMPACT, WE

REGARD THIS PROGRAM AS CLEARLY ONE OF SUBSIDIZING  
FRENCH EXPORTS AND RECOMMEND THAT AS MATTER OF  
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PAGE 03 PARIS 07970 02 OF 02 282007Z

PRINCIPLE WE SEEK EXAMINATION OF IT IN MTN FRAMEWORK.  
RUSH

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE LAW, EXPORT INSURANCE, CAPITAL GOODS, ANTIINFLATIONARY PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 MAR 1975  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
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**Original Handling Restrictions:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
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**Review Action:** RELEASED, APPROVED  
**Review Authority:** hartledg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 JUN 2003 by SilvaL0>; APPROVED <02 MAR 2004 by hartledg>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EXPORT PRODUCTION COST RISK INSURANCE IN FRANCE  
**TAGS:** EFIN, ETRD, FR  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006